

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Release Date: 1/30/2015
Date: November 4, 2014

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

X = program name
Y = organizations
f = dollar amount
g = number
h = number

UIL

4945.04-04

Dear _____ :

You asked for advance approval of your educational grant procedures under Internal Revenue Code section 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

Our determination

We approved your procedures for awarding educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of Code section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Description of your request

You will operate an educational grant program called X to provide fellowships to social entrepreneurs who have promising solutions to major problems in health, poverty and conservation in areas of extreme poverty. Each fellowship is granted to achieve a specific goal. X was previously operated by Y; you decided it would be more appropriate if you operated the program yourself.

X is a two-year program and includes a stipend of f dollars per year. The heart of the program consists of an annual week-long design course and semiannual hands-on mentoring and redesign sessions with a select faculty of highly successful entrepreneurs who have extensive experience with philanthropic entrepreneurship. The program generally ranges from g to h fellows. Each year the number of fellows selected is

dependent on the number of spaces available in the program and the number of candidates to choose from.

Fellows are selected based on the following criteria, directly related to the purpose of the fellowship.

1. A big and compelling social problem
2. An idea that feels scalable
3. An entrepreneurial personality and track record
4. An obsession with going to scale
5. An organization up and running, even if very small
6. Senior decision-making authority (usually an Executive Director or Chief Executive Officer)
7. A desire to tackle the process of scalable design
8. A full understanding of your program design process and tools and
9. Openness to new ideas and the willingness to change course.

Each fellow is selected based on a demonstration that they meet the above criteria and are exceptionally suited to effectuate the charitable purpose of your program. The fellows are selected by your senior staff with input from the Program Manager of X.

Your staff, the X faculty of entrepreneurial advisors and X staff have extensive networks of contacts through which they actively recruit fellows. The X program is also explained in detail on its website. The website invites questions and applications from the general public.

Fellows must fully participate in the annual week-long design course and semiannual mentoring process and must demonstrate consistent work towards formulating and implementing a solution to their particular problem. In addition, fellows must produce reports during the annual week-long design course and as part of the semiannual mentoring process. The reports demonstrate each fellow's progress in the program. You will review the reports to ensure that each fellowship is being used for its intended charitable purposes.

You will require a final report from each fellow at the end of the two-year fellowship describing his/her accomplishments and accounting for the use of the funds. You will regularly review these reports, and if you determine that a fellow has improperly used funds, you will stop any future payments and attempt to recover the misused funds.

You will maintain case histories showing the recipient of your fellowships including names, address, purposes of awards, amount of each, manner of selection and relationship (if any) to officers, trustees, or donors of funds to you. Awards will not be given to disqualified persons.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is:
 - A scholarship or fellowship subject to section 117(a) and is to be used for study at an educational organization described in section 170(b)(1)(A)(ii); or
 - A prize or award subject to the provisions of section 74(b), if the recipient of the prize or award is selected from the general public; or
 - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulations section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

Other conditions that apply to this determination

- This determination covers only the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot make grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and must further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations

Enclosures
Notice 437
Redacted letter